

THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

National Intelligence Council

DDI #5746-82
13 July 1982

MEMORANDUM FOR: Director of Central Intelligence

FROM:
National Intelligence Officer for Economics

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SUBJECT: 15 July Cabinet Meeting on the US-Soviet LTA on Grain

1. Attached are (1) Talking Points on Soviet Crop Prospects and Grain Import Requirements; (2) an issue paper on the US-USSR grain agreement prepared by USDA.

2. There are no substantial differences between CIA and USDA on any of the important variables: the estimate of the Soviet grain crop; Soviet grain import possibilities; or the amount of grain available outside the United States. You will note slightly different numbers, but these differences do not really matter.

3. USDA presents four policy options: (1) Let the existing LTA expire after September 1982; (2) Extend it for one year; (3) Extend it for two or more years with higher minimum purchase requirements; (4) Negotiate a new long-term agreement to cover not only grain, but also some other agricultural products.

4. Obviously the US farmer is in bad shape and can use all the help he can get. From a foreign policy perspective, however, negotiating a new LTA, or substantially extending the existing LTA, makes no sense at all. Specifically: It would take a substantial part of our grain exports to the USSR out of consideration for any future sanctions that we may wish to impose on Moscow.

- o Our allies are already criticizing us severely for being unwilling to restrict our grain exports while asking them to restrict their industrial exports.
- o The LTA can be viewed as a kind of political risk insurance; negotiating an LTA seems grossly inconsistent with the policy of trying to get our allies to reduce the volume of credits to the USSR under government guarantees.

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- o More generally, a new LTA would be widely interpreted as signaling a major change in US policy concerning East-West economic relations and would greatly hamper any future attempt to restrict these relations in other areas.

5. Since political insurance is about all that Moscow wants in an LTA, negotiating such an agreement gives us practically no usable leverage.



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Attachments,
As stated

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Talking Points on Soviet Crop Prospects and Import Requirements

1. Poor weather in recent weeks means that the Soviet grain harvest will be no larger than 175 million tons, but could be substantially worse than this if adverse conditions continue.

2. To protect its livestock program and minimize any decline in meat consumption, Moscow will probably import as much grain as it can physically handle, plus a great deal of meat.

- o We estimate that the USSR's ports and rail system can handle about 50 million tons of grain per year; because they have not been importing quite up to capacity levels, the Soviets can import only about 45 million tons this calendar year.

- o Moscow will probably import about a million ton of meat, slightly more than last year.

3. If the grain crop falls substantially below 175 million tons, even these larger imports will not permit Moscow to avoid painful reductions and adjustments in domestic feed and food supplies.

- o Some distress slaughtering of livestock, especially hogs, would be likely, providing a temporary addition to meat supplies, but leading to lower meat production in future years.

- o Even so, meat production and consumption would decline in 1982-83.

4. The USSR probably expects to obtain about one-third of its grain import needs, especially corn, from the US, and two-thirds from other grain exporting countries--Canada and Argentina.

- o Moscow may have already lined up 17 million tons under long-term

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agreements and other purchases from Canada, Argentina, eastern Europe, Thailand, and Brazil.

- o Non-US grain exporters probably can easily provide an additional 15 million tons.
- o Moscow will view the US as a residual supplier of wheat but needs US corn to obtain the mix of feed grain that it desires.

5. The world grain market is so soft that Moscow could do without any US grain if it had to this year.

- o The other major exporters could sell an additional 10-11 million tons of grain and still hold adequate stocks.
- o Substantial additional amounts could be provided by smaller suppliers at a premium.
- o The already large US stocks of grain would increase even more.

6. The foreign exchange cost of Soviet food imports is enormous.

- o Even though grain prices have fallen, Soviet grain imports would cost over \$6 billion per year.
- o In addition hard currency meat imports would be around \$500 million.
- o And total Soviet food imports would be around \$11-12 billion, absorbing nearly 40 percent of total hard currency export earnings.

7. To ease its hard currency bind, Moscow is seeking to buy as much grain as it can on credit, and the soft grain market makes exporters anxious to compete for the Soviet market through credit terms.

- o Since January about \$1 billion in Soviet grain purchases have been financed with short-term credits, mostly on commercial terms.

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- o Australia and Canada are willing to provide government guarantees for credits of about six months on commercial terms to the USSR.
- o Argentina, however, cannot afford to provide credit because of its critical liquidity problem.
- o US grain exporters are not providing credit, in part because of the attitude of the US government.

8. Because of the earlier US grain embargo, the state of US-Soviet relations, and the lack of US credit, Moscow has been trying successfully to reduce its dependence on US grain.

- o Production and exports of other Western countries has increased at the expense of the US.

9. What Moscow would hope to gain from a new LTA, or an extension of the present one, would be partial security of grain supply against the possibility of US export embargoes, whether politically or economically motivated.

- o In the absence of an LTA they can satisfy all or most of their needs from outside the US.
- o Moreover, under most circumstances they can always go to the US if they choose.